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SUBJECT: A DEPUTY PRIME MINISTER NARYSHKIN AND AMBASSADOR
BURNS DISCUSS INVESTMENT ISSUES

Classified By: Ambassador William J. Burns for reasons 1.4 b and d

Deputy Prime Minister Naryshkin and Ambassador Burns
Discuss Investment Issues

Summary

¶1. (C) Deputy Prime Minister Naryshkin told the Ambassador October 19 that Russia favored expanded two-way trade and investment. The Ambassador said the U.S. did as well and noted that the new CFIUS law was intended to facilitate, not prevent, foreign investment, including Russian, into the United States. Naryshkin said the Strategic Sector law, which he expected the Duma to pass this session, was also intended to clarify investment rather than prevent it. They agreed that a public seminar explaining the two laws should be arranged in Moscow for the near future.

¶2. (C) Naryshkin thanked the Ambassador for U.S. efforts on WTO but questioned why Jackson-Vanik had yet to be lifted. The Ambassador responded that WTO accession would sharpen the need to move on Jackson-Vanik, since U.S. businesses would suffer after that point if action on Jackson-Vanik were not taken. The Ambassador noted U.S. support for the BAP and CPC pipelines and asked about their status. Naryshkin said BAP was finally moving forward and that if CPC's current operations became profitable (for Russia) than expansion was likely. Naryshkin closed by commenting on Russian plans to begin large-scale development projects, such as a new ferry terminal in St. Petersburg, that would further open the country. End Summary.

Foreign Investment and New Laws

¶3. (C) The Ambassador said the U.S. welcomed Russian investment, including such high profile enterprises as Lukoil gas stations. In that regard, he stressed that the new CFIUS law was designed to improve U.S. national security but not to impede foreign investment. No Russian investment into the U.S. had been turned down on security grounds.

¶4. (C) Naryshkin responded that bilateral cooperation on investment was important. Russian firms needed to begin looking overseas, including to the U.S., for future growth. Russia in turn welcomed American investment. As Deputy Governor of St. Petersburg earlier in the decade, he had helped bring many U.S. firms to the region, including such

large firms as Philip Morris, GM, International Paper, and Caterpillar. He hoped to help make the same thing happen nationally.

¶15. (C) In that regard, Naryshkin said the Strategic Sector law was also not intended to restrict foreign firms, access to Russia. It was instead intended to clarify investment rules while protecting Russia's national interests. The law would apply to five main strategic areas: high technology, arms, space, aviation, and atomic energy. If a foreign company wanted a majority stake in any Russian firm in these areas, the law would require it to apply for a permit. A government commission would review the application and decide whether to grant the permit.

¶16. (C) The Ambassador suggested that it might be worthwhile to consider a joint seminar to explain each other's respective laws. He had raised this with new Minister for Economic Development and Trade (MEDT) Nabiullina, who had been receptive. Naryshkin agreed that such a seminar was worth pursuing.

¶17. (C) The Ambassador asked whether the Strategic Sector law was likely to pass during this Duma session as originally planned. Naryshkin's initial response was that he was unsure but, after a moment's reflection, he said that he believed that it would in fact be passed. (Comment: Our guess would be Naryshkin may have been right the first time. With time running out and election season just ahead the law may well not be finalized in this Duma session.)

WTO and Jackson-Vanik

¶18. (C) The Ambassador noted that WTO-accession talks were progressing. Naryshkin agreed, and added that Russia appreciated U.S. assistance in this regard.

¶19. (C) Naryshkin raised Jackson-Vanik, noting that American companies were arguably more interested in lifting Jackson-Vanik than either the GOR or the Russian business community. The Ambassador responded that the lifting of Jackson-Vanik was connected to WTO accession. When Russia joined the WTO, American businesses would be unable to benefit Jackson-Vanik were still in place. At that point, he said the logic of graduating Russia from Jackson-Vanik would become stronger and stronger and the Administration and the American business community would be able to make a compelling case to Congress to graduate Russia from Jackson-Vanik.

Energy Projects

¶10. (C) The Ambassador stressed U.S. interest in working with Russia on regional energy projects of mutual interest. For instance, we supported both the Burgos-Alexandropolous pipeline (BAP) as well as expansion of the CPC pipeline. Naryshkin said that after ten years of negotiation, BAP had finally been agreed to in principle by the presidents of Russia, Greece, and Bulgaria and was now at the technical level. CPC expansion was more complicated. The expansion was dependent on normalizing the pipeline's operation. Transit tariffs had been too low and as a result the stockholders had all been making money with the exception of Russia. Once this situation was corrected, then the decision to expand the pipeline could be taken.

¶11. (C) The Ambassador asked about progress on the pipeline being built to take oil east from Siberia to China (Siberia-Pacific Ocean Pipeline-ESPO). Naryshkin said the pipeline was on schedule and that the first part would be completed next year. The Ambassador noted ways in which the U.S. could contribute to development of Siberia, pointing to the experience of companies like International Paper who planned to play important roles in that development.

Naryshkin acknowledged that Russia should be able to get more out of Siberia's vast resources and that it would welcome foreign investment to help it do so.

Tourism and Infrastructure Development

¶12. (C) The Ambassador asked about efforts to promote tourism in Russia, such as the development of a new passenger ferry terminal in St. Petersburg. Naryshkin said the government was developing a private-public partnership law for next year and would be making funds available from the Stabilization Fund to develop 12 large infrastructure projects, including the ferry terminal and a high-speed road from St. Petersburg to Moscow. He added that the 2014 Olympics in Sochi would also do much to open the country to tourism, and noted that it would require 170,000 workers a day to complete preparations for the games.

Comment

¶13. (C) Naryshkin was his usual polite and low-key self, displaying good humor and a ready smile (and an occasional smirk), but offering relatively little substance. He told the Ambassador on the way out of the meeting that he was trying to stay out of the middle of political speculation and said he was certain only that United Russia would do "very well" in the Duma elections, but beyond that "there is a lot of mystery."
Burns